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Partners in a storm over picking a port for new coal project

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IT'S hard to disagree with Tony Poli's Aquila Resources that a feasibility study of the proposed Eagle Downs coking coal project in Queensland's Bowen Basin should take into account the prospects of actually getting the coal to a port and shipped out.

But Aquila's joint venture partner in Eagle Downs, Vale, does not agree. It contends that the port and rail logistics don't need to be included at this stage.

Aquila and Vale are already 50:50 partners in a producing mine in the Bowen Basin, the Isaac Plains coking and thermal coal operation. But they are at loggerheads over Eagle Downs and a fight appears to be looming over another Bowen Basin coal joint venture, Belvedere.

Relations are souring, with Aquila in March initiating proceedings in the Queensland Supreme Court seeking damages against Vale in relation to Eagle Downs. The latest dispute over the feasibility study threatens further delays to the project.

Eagle Downs is a planned long-life mine of 40 years-plus, with production expected from 2013 and ramp up to the first stage output of 4.6 million tonnes a year in 2015 and rising to 8mtpa. The capital cost, excluding rail and port, is around \$1 billion.

However, Aquila and Vale have been unable to agree on which port from which to ship the coal. Vale favours Dalrymple Bay; Aquila favours Abbot Point. Both suffer capacity constraints, particularly Dalrymple Bay.

In December, Aquila announced it had been offered capacity of 4mtpa with the planned expansion of Abbot Point, provided the joint venture committed to take or pay contracts by February 26. Aquila agreed but Vale refused to execute the contracts, and Eagle Downs lost its place in the queue.

As a result, Aquila issued a default notice, but Vale disputed it was in default so Aquila instituted its damages case.

As to Belvedere, the JV was owned 51 per cent by Vale and 24.5 per cent each by Aquila and Hans Mende's AMCI, with Vale holding options to buy out its partners at "fair market value".

On June 1, Vale announced it had acquired AMCI's stake for \$US92 million, taking its interest to 75.5 per cent, and then said it intended to exercise its option to acquire Aquila's stake. But Aquila says Vale and AMCI did not follow the specified process for determining fair market value and considers the stated purchase price too low.

Under the JV, Vale and Aquila must each appoint a valuer to determine fair market value and if the two valuations are within 10 per cent of each other the price payable is the average of those valuations. If the valuations are not within 10 per cent, a third valuation is to be obtained (which must be not less than the lower of the two valuations) and that becomes the price to be paid.

Aquila says Vale and AMCI didn't follow that process but agreed the price between them without any prior knowledge, input or involvement of Aquila.

The purchase of the AMCI stake was concluded after the announcement of the proposed resource super-profits tax, which could be expected to reduce the price, but Vale says the price was settled before news of the tax.

Aquila has quoted analysts' reports valuing its 24.5 per cent Belvedere stake at \$350-450m, well above the price paid for AMCI's stake. Those valuations are not determinations of fair market value for the purposes of the JV agreement, but it can be expected that Aquila will be after a much higher price than the purported consideration for the AMCI stake.

The latest dispute relates to the 2010-11 budget for the Eagle Downs JV, which includes a definitive feasibility to enable a decision as to whether to develop the mine. Aquila wants the study to take into account port and rail logistics and while it doesn't consider it is a prerequisite for binding commitments to be entered into, the company strongly believes financiers would not provide funding unless the logistics were sufficiently certain. Vale disagrees.

Aquila says the JV agreement requires the feasibility study to demonstrate the commercial feasibility and viability of the project to a standard required by major financial institutions.

Vale counters that Aquila has added words to the budget approval condition that aren't necessary and don't accord with the JV agreement.

Whatever, it's difficult to disagree with Aquila's position. For minerals where tonnages are not so large, such as gold and possibly copper, it may be possible to conduct a feasibility study without taking into account transport logistics.

But Eagle Downs is a large-scale bulk commodity project and could not be developed, including funding, unless the transport and shipping logistics are resolved.

Vale claims Aquila is causing delays to the project, but it is Vale, by holding out for "future capacity" at Dalrymple Bay, which appears to have the longer time horizon.